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In the

Supreme Court of the United States

OCTOBER TERM, [redacted] 1958

No. [redacted] 102

JEOFFROY MFG., INC., ROY JEOFFROY and RAY L. JEOFFROY,

Petitioners,

v.

WILLIAM T. GRAHAM and GRAHAM-HOEME PLOW CO., INC.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

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To the Honorable Supreme Court of the United States:

Petitioners, Jeoffroy Mfg., Inc., Roy Jeoffroy and Ray L. Jeoffroy, respectfully petition the Court for a writ of certiorari to the United States Court of Appeals for the Fifth Circuit and in support thereof show:

A. OPINIONS OF THE COURTS BELOW

1. *The District Court*—The United States District Court for the Northern District of Texas, Amarillo Division, did

not file a formal opinion. Its decision is contained in two letters (R. 14 and 25) and in the Findings of Fact and Conclusions of Law (R. 42).

2. *The Court of Appeals*—The opinion of the Court of Appeals for the Fifth Circuit (R. 857) is reported 253 F. 2d 72. Copies of the opinion, the judgment (R. 869) and the order overruling petition for rehearing (R. 911) are appended to this petition.

B. JURISDICTION

The grounds on which the jurisdiction of this Court is invoked are as follows:

1. The judgment of the Court of Appeals is dated and was entered March 12, 1958 (R. 869).

2. Petition for rehearing and brief in support thereof were filed March 31, 1958 (R. 870) within the time prescribed by the rules of the Court of Appeals.

3. Order denying petition for rehearing is dated and was entered May 3, 1958 (R. 911).

4. 28 U. S. C. A. §1254(1), June 25, 1948, c. 646, 62 Stat. 928, confers on this Court jurisdiction to review the judgment of the Court of Appeals by writ of certiorari.

5. This Court should exercise its sound judicial discretion to entertain this petition and grant writ of certiorari because:

a. The Court of Appeals has decided important questions of federal law which have not been, but should be, settled by this Court, to-wit:

(1) the measure of recovery for patent infringement under 35 U. S. C. A. §70 as amended Aug. 1, 1946, the provisions of which statute are substantially the same as the present statute, 35 U. S. C. A. §284, and

(2) whether reasonable salaries of officers and principal owners of a close corporation, who are jointly liable with the corporation, are deductible expenses in computing infringement profits.

b. The decision of the Fifth Circuit is in conflict with that of other circuits.

c. The Court of Appeals has grossly departed from the accepted and usual course of judicial procedure in that it has set aside the trial court's finding of damages and substituted therefor its own award based solely on infringement profits, which profits have no factual relation to damages and are erroneously computed.

C. QUESTIONS PRESENTED FOR REVIEW

1. Did the Court of Appeals err in using Petitioners' profits as the measure of Respondents' recovery for patent infringement?

2. In computing infringement profits did the Court of Appeals err in excluding as expenses the reasonable salaries of the corporate officers and individual petitioners,

Roy Jeoffroy and Ray L. Jeoffroy, who were held jointly liable with the corporate petitioner, Jeoffroy Mfg., Inc.?

3. Did the Court of Appeals usurp the function of the trial court and substitute its judgment for that of the trial court in reforming the judgment to increase the award from $35,000.00 to $64,407.59?

D. STATUTES INVOLVED

The award covers a period from January 10, 1950 to January 5, 1952; therefore the controlling statutes are 35 U. S. C. A, §67, Appendix II (R. S. §4919; Act July 8, 1870, c. 230, §59, 16 Stat. 207) and 35 U. S. C. A. §70, Appendix II (R. S. §4921; Mar. 3, 1897, c. 391, §6, 29 Stat. 694; Feb. 18, 1922, c. 58, §8, 42 Stat. 392; Aug. 1, 1946, c. 726, §1, 60 Stat. 778). In order to intelligently appraise and decide the questions involved, however, it is necessary to consider the statutes as they existed before the amendment of 1946, the amendment of August 1, 1946 to §70, and the superseding provisions of the Patent Act of 1952, effective Jan. 1, 1953. Therefore, the pertinent provisions of the various statutes are here set out in chronological order.

Provisions Prior to the 1946 Amendment

35 U. S. C. A. §67.

"Damages for the infringement of any patent may be receovered by action on the case, in the name of the party interested, either as patentee, assignee, or grantee. And whenever in any such action a verdict is rendered for the plaintiff, the court may enter judg-

ment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs." R. S. §4919; Act July 8, 1870, c. 230, §59, 16 Stat. 207.

35 U. S. C. A. §70.

"The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any rights secured by patent, on such terms as the court may deem reasonable; and upon a decree being rendered in any such case for an infringement, *the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby,* and the court shall assess the same or cause the same to be assessed under its direction. If on the proofs it shall appear that the complainant has suffered damages from the infringement or that defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defndant to th complainant of a reasonable sum as profits or general damages for the infringement: And the court shall have the same power to increase such damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but in any suit or action brought for the infringement of any patent

there shall be no recovery of proftis or damages for any infringement committed more than six years before the filing of the bill of complaint or the issuing of the writ in such suit or action, and this provision shall apply to existing causes of action. * * *." R. S. §4921; Mar. 3, 1897, c. 391, §6, 29 Stat. 694; Feb. 18, 1922, c. 58, §8, 42 Stat. 392. (Emphasis added.)

As Amended in 1946

35 U. S. C. A. §70.

"The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunction according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a judgment being rendered in any case for an infringement *the complainant shall be entitled to recover general damages which shall be due compensation for making, using or selling the invention, not less than a reasonable royalty therefor,* together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case.

"The court is authorized to receive expert or opinion evidence upon which to determine in conjunction with any other evidence in the record, *due compensation for making, using, or selling the invention,* and such expert or opinion evidence is declared to be competent and admissible subject to the general rules of evidence applicable thereto. The court shall assess said damages, or cause the same to be assessed, under its discretion and shall have the same power to increase the assessed damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; but recovery shall not be had for any infringement committed more than

six years prior to the filing of the complaint in the action. * * *." R. S. §4921; Mar. 3, 1897, c. 391, §6, 29 Stat. 694; Feb. 18, 1922, c. 58, §8, 42 Stat. 392; Aug. 1, 1946, c. 726, §1, 60 Stat. 778. (Emphasis added.)

Patent Act of 1952

35 U. S. C. A. §284.

"Upon finding for the claimant the court shall award to the claimant *damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer*, together with interest and costs as fixed by the court.

"When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

"The court may receive expert testimony *as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.*" July 19, 1952, c. 950, §1, 66 Stat. 813. (Emphasis added.)

E. STATEMENT OF THE CASE

For simplicity throughout the remainder of this petition the parties will be referred to in the main as Graham and Jeoffroy.

Original federal jurisdiction attached because the controversy arose under the patent laws of the United States.

United States Patent No. 2,493,811, entitled "Vibrating Plow and Mounting Therefor" (R. 839) and directed to a spring clamp for attaching the shank of a chisel type plow to the frame thereof, was issued to William T. Graham on

January 10, 1950. Graham and his licensee corporation, Graham-Hoeme Plow Co., Inc., sued Jeoffroy Mfg., Inc. and its principal stockholders and officers, Roy Jeoffroy (President) and Ray L. Jeoffroy (Vice President) for infringement on April 10, 1950 (R. 1) and judgment of validity and infringement was affirmed by the Court of Appeals for the Fifth Circuit in *Jeoffroy Mfg., Inc. v. Graham, 206 F. 2d 772 (1953), cer. den. 347 U. S. 920, 98 L. Ed. 1075, 74 S. Ct. 515 (1954),* with Mr. Justice Black and Mr. Justice Douglas being of the opinion that certiorari should have been granted.

Thereafter, pursuant to order (R. 2) of the District Court, Jeoffroy filed its report in accounting covering the period from the issuance of the patent, January 10, 1950, to the date of judgment, January 5, 1952, and the proceeding to assess damages was tried before the court commencing on February 8, 1955 (R. 54). Preliminary decision was announced by letter on September 29, 1955 (R. 14) and final decision was announced by letter on April 12, 1956 (R. 25). Findings of Fact and Conclusions of Law (R. 42) were filed on August 3, 1956, and judgment (R. 49) was filed on the same day awarding Graham $35,000.00 as compensatory damages.

The trial court denied recovery predicated on a lost sales profits for lack of proof of profits (R. 15-16), and Graham admitted for the first time at page 43 of his brief on appeal that:

> "* * * Plaintiffs, unfortunately, made no profits from the sale of several thousand plows during the accounting period. * * *."

The trial court also denied increased damages and attorney's fees (R. 24-25, and Finding XII, R. 48-49).

In computing infringement profits the trial court found the following facts which were developed by Jeoffroy and are essentially undisputed: Jeoffroy sold 1,863 plows equipped with the infringing spring clamp. Its total sales (all business) amounted to $1,189,796.16 of which 45.60% or $542,604.31 represented sales of spring clamp plows, spring clamps and spring clamp parts. The total net profit on all business before taxes was $68,287.25 of which 45.6048% or $31,142.26 was attributable to the spring clamp plow and parts business. (Finding III, R. 43.)

The profits so computed allowed all expenses of the business as deductions, but at trial Jeoffroy conceded that all expenses attributable to the defense of the infringement suit should not be deducted in computing infringement profits and specifically segregated those items as shown in Finding IV (R. 44). Additionally, the trial court found that Ray L. Jeoffroy was the dominant personality of the corporation in the infringement activity and that his salary from the infringement phase of the business therefore should not be deducted as an expense in computing profits (Findings VIII and IX, R. 46-48). The profit figure was then adjusted by adding back the disallowed expenses in the amount of $54,489.39 to the total net profit of $68,287.25, making a total adjusted profit on all business of $122,776.64. The percentage factor of 45.6048 was then applied to reach a figure of $55,992.04 which the court concluded was the correct net profit before taxes attribut-

able to the sale of spring clamp plows, spring clamps and spring clamp parts. (Finding IV, R. 44-45.)

Since the patent covers only the spring clamp and since a substantial part of the value of the plow is made up of other parts not covered by the patent the trial court further concluded that only 60% of the profits from the sales of plows equipped with spring clamps should be attributed to the spring clamp (Finding VII, R. 46), and while he did not in his findings apply this percentage specifically to reach a dollar factor, the application would be 60% of $55,992.04 or $33,595.22 as the corrected infringement profit.

Finally the trial court concluded that a reasonable royalty, which would mark the minimum limit of recovery, would be 5% of net sales of spring clamp plows and parts (Finding X, R. 48); that other elements might properly be taken into consideration in figuring compensatory damages (Finding XI, R. 48), and that upon the whole record (R. 28) Graham's damages should be assessed at $35,000.00.

Graham appealed and the Court of Appeals held that the salaries of both Roy Jeoffroy and Ray L. Jeoffroy were not deductible expenses in computing infringement profits and that all disallowed expenses should be added back 100% to infringement profits rather than pro rata to the profits from all business. It thus recomputed infringement profits as $64,407.59 and reformed the judgment to award recovery in precisely that amount.

Jeoffroy challenged the reformation by petition for rehearing (R. 870) and here seeks review by certiorari to correct the clear errors of the Court of Appeals.

F. ARGUMENT AMPLIFYING REASONS FOR ALLOWANCE OF THE WRIT

POINT ONE

In reforming the judgment to award $64,407.59 the Court of Appeals has allowed Graham to recover Jeoffroy's profits contrary to the applicable statute, 35 U. S. C. A. §70, Appendix II, and contrary to the decision of the Court of Appeals for the Seventh Circuit in Ric-Wil Co. v. E. B. Kaiser Co., 179 F. 2d 401 (1950), cert. den. 339 U. S. 958, 94 L. Ed. 1369, 70 S. Ct. 981, and this Court should settle this important question of patent law.

Prior to the 1946 amendment *35 U. S. C. A. §70* specifically provided that upon a decree of infringement "*the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby.*" Thus in equity proceedings the plaintiff was by the express terms of the statute entitled to recover the infringer's profits without regard to his own damages, and if he could further show that he was damaged in an amount greater than the infringer's profits, he could recover his additional damages.

We believe it is absolutely plain, however, that there was a clear distinction between the infringer's profits and the patentee's damages, that neither concept in any way

depended upon the other and that the elements of one were of little relevance or materiality to the other. A brief chronological review of some of the important cases will clearly delineate the two different concepts.

In *Tilghman v. Proctor, 125 U. S. 136, 31 L. Ed. 664, 8 S. Ct. 894 (1887)*, the problem was analyzed as follows:

> "The principal question of law now presented is as to the general rule that should govern the amount to be recovered. The defendants contend that the plaintiff, having established license fees for the use of his patent, is not entitled to any gains and profits accruing to the defendants, in excess of those fees. The plaintiff contends that, *as the profits to be accounted for exceed the damages*, he has the right, waiving the damages found by the master, to have a decree for profits.
>
> "In an *action at law* for the infringement of a patent, *the plaintiff can recover a verdict for only the actual damages which he has sustained;* and the amount of such royalties or license fees as he has been accustomed to receive from third persons for the use of the invention, with interest thereon from the time when they should have been paid by the defendant, is generally, though not always, taken as the measure of his damages; * * *.
>
> "But upon *a bill in equity* by the owner against the infringers of a patent, *the plaintiff is entitled to recover the amount of gains and profits that the defendants have made* by the use of his invention.
>
> "This rule was established by a series of decisions under the Patent Act of 1836, which simply conferred upon the courts of the United States general equity jurisdiction, with the power to grant injunctions, in cases arising under the patent laws. * * *." (Emphasis added.)

The law was further clariifed in *Coupe v. Royer, 155 U. S. 565, 582, 39 L. Ed. 263, 269, 15 S. Ct. 199 (1895)*, where the Court said:

> "There is a difference between the measure of recovery in equity and that applicable in an action at law. In equity, the complainant is entitled to recover such gains and profits as have been made by the infringer from the unlawful use of the invention, and, since the Act of July 8, 1870, in cases where the injuries sustained by the infringement is plainly greater than the aggregate of what was made by the defendant, the complainant is entitled to recover the damages he has sustained, in addition to the profits received. *At law the plaintiff is entitled to recover, as damages, compensation for the pecuniary loss as suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful act—the measure of recovery in such cases being not what the defendant has gained, but what the plaintiff has lost.* As the case in hand is one at law, it is not necessary to pursue the subject of the extent of the equitable remedy; but reference may be had to Tilghman v. Proctor, 125 U. S. 137 (31: 664), where the cases were elaborately considered and the rule above stated was declared to be established." (Emphasis added.)

Thereafter in *Brown v. Lanyon, 148 F. 838 (C. A. 8, 1906)*, the court was faced with the square question of whether the infringer's profits could be used as a measure of plaintiff's damages in an action at law. Plaintiff stated his own proposition in this language (page 838):

> "The plaintiffs cannot prove any lost sales, or any established license fee, or any other form of direct damage. * * * If it be the law that plaintiffs have no right of recovery of defendants' profits or of *damages*

> *measured by defendants' profits*, then the plaintiffs have no right of recovery in the present action, and the action of the lower court dismissing the petition is correct." (Emphasis added.)

The court denied any recovery, holding that profits were an element of recovery only in an equity proceeding as provided under the Act of 1870, and *that actual damages did not include and could not be measured by the defendants' profits.*

The whole problem was again brought into full focus in *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co., 235 U. S. 641, 59 L. Ed. 398, 35 S. Ct. 221 (1914)*. The court first considered under the statute the possibility of recovery based on the infringer's profits, but found that the evidence was insufficient to permit recovery on that basis. It then considered the question of damages, *235 U. S. at 647*, and *59 L. Ed. at 403*, as follows:

> "*Coming to the question of damages*, we think the masters and the courts below were right in holding that the evidence did not present sufficient data to justify an assessment of substantial damages.
>
> "While the number of drills sold by the defendant was shown, there was no proof that the plaintiff thereby lost the sales of a like number of drills or of any definite or even approximate number. * * * *There was therefore no adequate basis for an assessment of damages upon the ground of lost sales.*
>
> "As the exclusive right conferred by the patent was property, and the infringement was a tortious taking of a part of that property, the normal measure of damages was the value of what was taken. So, had the plaintiff pursued a course of granting licenses to

others to deal in articles embodying the invention, the established royalty could have been proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages. * * * *But, as the patent had been kept a closed monopoly, there was no established royalty. In that situation it was permissible to show the value by proving what would have been a reasonable royalty*, considering the nature of the invention, its utility and advantages, and the extent of the use involved. Not improbably such proof was more difficult to produce, but it was quite as admissible as that of an established royalty. * * * In many cases in the Federal courts the damages have been assessed on proof of a reasonable royalty. The practice is illustrated by the following extract from the opinion in Hunt Bros. Fruit Packing Co. v. Cassiday, 12 C. C. A. 316, 318, 29 U. S. App. 116, 64 Fed. 585, 587: 'The plaintiff was clearly entitled to damages for the infringement. If there had been an established royalty, the jury could have taken that sum as the measure of damages. *In the absence of this royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid.* This amount it was the province of the jury to determine. In so doing, they did not make a contract for the parties, but found a measure of damages.' True, some courts have regarded Coupe v. Royer, 155 U. S. 565, 39 L. Ed. 263, 15 Sup. Ct. Rep. 199 as impliedly holding that this practice was not permissible, but the decision does not admit of such an interpretation. In that case—an action at law—there was no proof of what would have been a reasonable royalty, but only of what the defendant had made or might have made out of the infringement; and all that the court held was (a) that *the damages were not to be measured by what the defendant had gained* or might have gained, *but what the plaintiff had lost*, and (b) that, as the evidence disclosed 'no license fee, no im-

pairment of the plaintiff's market, in short, no damages of any kind,' the verdict could not exceed a nominal sum. In Cassiday v. Hunt, 75 Fed. 1012, where the scope of that decision was carefully considered by one of the circuit judges for the 9th Circuit, *the conclusion was reached that it did not militate against an assessment of damages upon the basis of what would have been a reasonable royalty;* and a like view was expressed and applied by the Circuit Court of Appeals for the Third Circuit in McCune v. Baltimore & O. R. Co., 83 C. C. A. 175, 154 Fed. 63, and Bemis Car Box Co. v. J. T. Brill Co., 119 C. C. A. 229, 200 Fed. 749, 762, and by the Circuit Court of Appeals for the Sixth Circuit in the United States Frumentum Co. v. Lauhoff, 216 Fed. 611. But, although the plaintiff was entitled to prove what would have been a reasonable royalty, and thereby show a proper basis for an assessment of damages, no proof upon that subject was presented.

"There are still other grounds upon which damages may be assessed in infringement cases as where hurtful competition is shown, but the present record does not require that they be specially noticed." (Emphasis added.)

The court then concluded that while the record was insufficient to support an award for more than nominal damages the evidence had not been sufficiently presented because of lack of harmony in the decisions at the time the case was tried, and it therefore remanded.

Another clear demarcation of the concepts of profits and damages is found in *Underwood Typewriter Co. v. E. C. Stearns & Co., 227 F. 74 (C. A. 2, 1915).* There were two defendants and recovery against one was on the basis of

profits. The Stearns Co. had no profits and accordingly no recovery on that basis could be had. As to damages the Court said at page 82:

"We come, now, to the matter of damages.

"* * *.

"On an accounting for infringement of a patent, *defendant's profits and complainant's damages are distinguished from and independent from each other. They are governed by different principles*, and the allowance of one does not preclude recovery of the other. * * * And it does not follow that no damages are recoverable because no profits were made may make it less difficult to assess the damages, as the law does not permit a duplication of damages of what has been received in the shape of profits. * * * But the difficulty in the case at bar is that complainant has offered no proof that can seriously be considered as entitling it to any recovery for damages. *Damages cannot be awarded unless there is a ground on which a recovery of damages can be based.* And this record discloses no such grounds. The Stearns Co. was never a competitor with the plaintiff in any more than name. The plaintiff was making some 50,000 machines a year and the Stearns Co. less than 900. It has not been shown that the infringement by either defendant caused the slightest injury to plaintiff's business. No proof has been introduced that the plaintiff's sales were diminished by any cause during the infringing period. *If there had been proof of lost sales, then proof would have been necessary as to the actual money loss caused by the lost sales*, and there is no proper or sufficient proof of the cost of manufacturing of complainant's machines or of the net amount for which they were sold, and from which plaintiff's profit could be calculated. Moreover, the plaintiff made no attempt to prove an established royalty as a basis of damages. * * *." (Emphasis added.)

This case, like the *Dowagiac* case, makes it absolutely clear that the infringer's profits and the plaintiff's damages are two separate and distinct items of recovery with neither having any definite relation to the other.

Another of the often cited cases in this field is *Duplate Corp. v. Triplex Safety Glass Co., 298 U. S. 448, 80 L. Ed. 1274, 56 S. Ct. 792 (1936)*. The specific problems dealt with by the court relate mainly to the method of stating the account to determine profits and have little bearing on the problem here, but at *page 450 U. S. and page 1278 L. Ed.* the court said:

> "The controversy as to the measure of liability divides itself into two branches, one concerned with the defendants' profits, the other with the complainant's damages. * * *.
>
> " 'In patent nomenclature *what the infringer makes is profits; what the owner of the patent loses by such infringement is damages.* * * *.' " (Emphasis added.)

The foregoing cases we believe present a fair picture of the law as it existed prior to the amendment of Section 70, in 1946, and an imminent authority, *Walker on Patents (Deller's Ed. 1937)*, has appraised the law at page 2154, et seq., as follows:

> "The pecuniary injury which a plaintiff incurs by reason of a defendant's infringement of his patent, is *the measure of the damages* which that plaintiff is entitled to recover on account of that infringement. * * * Such injury is often called the plaintiff's loss * * * and sometimes it is strictly that, but often it is a loss only in the sense that it is a failure to acquire a just and deserved gain. * * * Whether the injury caused to a plaintiff by an infringement was a loss

in one or the other of these senses, *its magnitude must always be ascertained*, in order to ascertain the amount of damages which he is entitled to recover. *The amount of profit the defendant derived from his infringement, has no direct relevancy to the question of the plaintiff's damages.* In the first place the defendant's profits as such are not recoverable in an action at law. * * *.

"Defendant's profit cannot be used as a measure of damages, in the second place, *because they are sometimes much larger than the plaintiff's pecuniary injury.* * * *; and where they are smaller, that fact is no defense to the plaintiff's right to recover full damages for the pecuniary injury which the infringer caused him to incur. * * * But where a patentee has elected to take in a suit in equity, the infringer's profits, instead of his own damages, he cannot recover, for the same infringement, his damages in an action at law. * * *.

"To ascertain the extent of the pecuniary injury which a particular infringement caused a particular plaintiff, *it is necessary to ascertain 'the difference between his pecuniary condition after the infringement, and what that condition would have been if that infringement had not occurred.'* * * * If he availed himself of a patent, by granting licenses to others to do the thing which the defendant did without a license, then that difference consists in his not having received the royalty which such a license would have brought him; * * *. If he so availed himself, by keeping his patent right a closed monopoly and granting licenses to no one, *then that difference consists of the money he would have realized from such a closed monopoly if the defendant had not infringed;* as, for example, the sales he would have made and the profits he would have realized from such sales. * * *.

"Therefore, there are several methods of assessing damages for infringement of patents. The *primary*

method consists in using the plaintiff's *established royalty* as the measure of those damages. * * * The *second* consists in estimating those damages by ascertaining *what the defendant's interference with the plaintiff's closed monopoly prevented the latter from deriving therefrom.* * * * The *third* consists in proving what would have been a *reasonable royalty.* * * *." (Emphasis added.)

In the 1946 amendment of Section 70 the old provision for an accounting for profits was omitted and the provision for recovery became as follows:

"* * * upon a judgment being rendered in any case for an infringement the complainant shall be entitled to recover *general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor,* together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment in any patent case. * * *.

"The court shall assess said damages, or cause the same to be assessed under its direction and shall have the same power to increase the assessed damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case; * * *." (Emphasis added.)

It must be assumed that when the Congress amended the statute it did so with knowledge of the clear difference between the infringer's profits and the patentee's damages and that it intended to adopt the established law of damages as the measure of recovery. This, we believe, is clearly disclosed by the remarks of Congressman Lanham on the floor of the House immediately before the bill was passed,

Congressional Record, Vol. 92, Part 2, 79th Congress, Second Session, page 1857, et seq.:

> "MR. COLE of New York. * * * I thought that perhaps it might simplify things if some member of the committee would explain it.
>
> "MR. LANHAM. * * * This bill simply provides for proper damages with reference to infringement, and allows the court, in case the infringement of the patent is innocent, merely to assess royalties and restrain further infringement, and in case of willful infringement to provide what the damages shall be. The measure of said is clearly set out. It will be due compensation for making, using, or selling the invented article, not less than a reasonable royalty therefor. If the gentleman has examined the report he will have noted that *the object of the bill is to make the basis of recovery in patent-infringement suits* general damages; that is, *any damages a complainant can prove*, not less than a reasonable royalty, together with interest from the time the infringement occurred, *rather than damages based upon profits*. Of course, in a case of an innocent infringement, it is to be presumed that the court would assess no more than a reasonable royalty for such time as the patent was infringed by the innocent user. * * *." (Emphasis added.)

The language of the statute itself seems clear enough, but Mr. Lanham's remarks made on the floor of the House immediately before the bill was passed leave no room for doubt that the purpose of the amendment was to make plaintiff's damages rather than defendant's profits the measure of recovery.

Insofar as we have been able to determine this Court has not ruled upon the measure of recovery in patent infringement cases since the amendment of the statute in 1946.

We believe, however, that the Court of Appeals for the Seventh Circuit in *Ric-Wil Co. v. E. B. Kaiser Co., 179 F. 2d 401 (1950), cert. den. 339 U. S. 958, 94 L. Ed. 1369, 70 S. Ct. 981*, has squarely held that an award measured by the infringement profits is no longer permissible under the statute. The judgment appealed from in that case required:

> "that defendant *account for and pay to plaintiff all profits realized by defendant* through the making, using and selling of any and all of the infringing articles and account for and pay to plaintiff damages equaling the profits plaintiff would have made had it made each of the infringing sales made by defendant." (Emphasis added.)

The defendant urges that the judgment was in conflict with *35 U. S. C. A. §70, as amended*, and the court sustained that contention, saying at page 407:

> "* * * The provision in effect prior to August 1, 1946 provided for recovery by the complainant 'in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained.' The recent provision does not use the word 'profits'. It provides recovery for nothing other than 'general damages'. What elements may be included in such damages is not stated, except they 'shall be due compensation'. The language appears to make it plain that profits realized by an infringer are not recoverable as such. 'General damages' is a broad term which no doubt may include numerous elements depending upon the circumstances of the case. And whether an infringer's profits is an element of such damages depends upon the facts of each individual case. We therefore conclude that the judgment relative to an accounting is not in conformity with the statutory provision and that it must be modified accordingly."

Of course, the *Ric-Wil* holding is directed to an order to account rather than a final judgment, but that does not affect the rule stated. It seems completely clear that *the Seventh Circuit considered the statute as eliminating a recovery based upon infringement profits alone.* See also *Faulkner v. Gibbs, 199 F. 2d 635, 638 (C. A. 9, 1952)*, and *Zenith Radio Corp. v. Dictograph Products Co., 6 F. R. D. 597, 599 (D. C., D. Del. 1947).*

In the case at bar the award of the Fifth Circuit is based solely upon and is in the precise amount of Jeoffroy's profits. The Court did not point to any facts which would correlate Jeoffroy's profits with Graham's damages for the obvious reason that there are none. Furthermore, it did not even find that Graham's damages were $64,407.59 or any other amount. The compelling conclusion is that the judgment is nothing more than an award of infringement profits which is contrary to the clear language of the statute and the expressed intention of Congress.

The Seventh Circuit in the *Ric-Wil* case was apparently of the view that under some circumstances infringement profits might become an element of infringement damages. That might well be true if there were evidence to show that the profits realized by the infringer had any real relation to the loss of the patentee. But there is no such evidence here. On the contrary Graham made no profits on the sale of 12,000 to 13,000 plows during the accounting period (R. 170), while Jeoffroy made profits on the sale

of only 1863 plows. Obviously there is no factual relationship between Jeoffroy's profits and Graham's damages, and the judgment of the Fifth Circuit making an award based solely upon infringement profits is contrary to the statute and contrary to the decisions of the Seventh Circuit.

There is more at stake here than a mere determination of this controversy between Graham and Jeoffroy and there is more at stake than the mere construction of a statute which was in force during the short period from August 1, 1946 until January 1, 1953. The present statute, *35 U. S. C. A. §284*, which provides for:

> "* * * damages adequate to compensate for the infringement, but in no event less than a reasonable royalty * * *."

is almost exactly the same as repealed *§70* which provided for:

> "* * * general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty * * *."

Obviously, therefore, a review of this case will settle an extremely important question of patent law under the present statute.

POINT TWO

The Court of Appeals has erred in holding that the reasonable salaries of Roy Jeoffroy and Ray L. Jeoffroy, the principal stockholders and officers of the corporation, are not deductible expenses in computing infringement profits,

and if infringement profits have any place in the present law of infringement damages this Court should settle the law upon this question.

If we are correct in our first proposition that infringement profits can no longer be the measure of recovery, then the question of proper deductions in computing profits is of no great importance, but if profits remain a proper measure under any circumstances it is extremely important to settle the question of proper deductions.

Jeoffroy Mfg., Inc. is a close corporation with capital stock of 3,000 shares, par value $100.00 per share, owned as follows:

Roy Jeoffroy	1440 shares	$144,000.00
Ray L. Jeoffroy	1440 shares	$144,000.00
Ruth Roper	120 shares	$ 12,000.00

Roy Jeoffroy is President and Ray L. Jeoffroy is Vice President. They were held jointly liable with the corporation for infringement.

Their salaries were equal and during the accounting period totaled $95,228.28, of which $43,428.66, or $21,714.33 of the salary of each was paid by the spring clamp phase of the business. The record conclusively shows that their salaries *were not geared in any way to the profits of the business* (See Defendants' Exhibit No. 6, R. 717, and the testimony of the accountant, Mr. Shile, R. 503-5.), and *Graham stipulated that the salaries were reasonable and commensurate with the services rendered* (R. 411-12). Because Ray L. Jeoffroy was the aggressive and dominant

personality in the infringement activity the District Court excluded $21,714.33 of his salary in computing infringement profits, but did not exclude any of the salary of Roy Jeoffroy (R. 21-23, Finding IV, R. 44, and Findings VIII and IX, R. 46-48). In our opinion the exclusion of any part of Ray L. Jeoffroy's salary was incorrect, but we did not except to the Trial Court's action in that respect because the overall judgment of damages was within reasonable limits.

The Court of Appeals held that both salaries should be excluded in computing infringement profits, citing no authority.

Insofar as we have been able to determine this Court has never passed upon this question, but that great Judge, Learned Hand, while on the District bench, squarely held in *Page Mach. Co. v. Dow, Jones & Co., 238 Fed, 369, 375 (D. C. S. D. N. Y., 1916)*, that *salaries of officers who were the principal owners of a company were proper deductions to the extent that they were commensurate with services actually rendered, but would not be allowed to the extent that they represented a distribution of profits in the disguise of salaries.* The same rule was announced in *Clair v. Kastar, Inc., 70 F. Supp. 484 (D. C. N. Y. 1946)*, where Kaplan and Stark were the officers and directors and owned all of the stock of the corporation except for nominal shares owned by the office manager. The court said at page 487:

"I think the rule to be deduced from these cases is that, in determining the profits of an individual or a partnership infringer, to which the patentee is entitled, no deduction of any amounts drawn out, either as salaries, living expenses or otherwise, is to be allowed as a credit; and that, *in the case of corporate infringers, whether or not a close corporation, salaries to officers in payment of services rendered will be allowed as a credit, but only if such salaries are reasonable in amount and are not a distribution of profits in disguise.* The courts will not hesitate, where salaries seem to be excessive and to be really a division of profits, to cut down the amount to a reasonable figure (National Folding-Box & Paper Co. v. Dayton Paper Novelty Co., C. C., S. D. Ohio, 95 F. 991, 994); '* * * any amount in excess of a reasonable salary is not deductible.' W. H. Miner, Inc. v. Peerless Equipment Co., 7 Cir., 115 F. 2d 650, 656, left column.

"*Nothing in the record indicates that the salaries paid to Kaplan and Stark were, in any sense, a distribution of profits in disguise*, and, in view of the foregoing authorities, *this exception must be overruled, unless the salaries can be said to be either unreasonable or extraordinary.* Plaintiffs' claim appears to be that all the monies paid to Kaplan and Stark were, in fact, a distribution of profits in disguise, or, at least, unreasonable salaries, because the salaries paid during the seven-year period aggregated $281,800.00, while the net profits, after deducting the salaries, aggregated only $204,606.33; in other words, that the salaries were about 58% of the total.

"The conclusion, however, does not follow. *The reasonableness of the salaries depends upon whether they were commensurate with the value of the services rendered.* Plaintiffs offered no evidence on this point. The Master found that the salaries were neither unreasonable nor extraordinary and that the several increases were commensurate with, and fully justified by, the continued growth in defendant's business, the declines

in the gross business in 1942 and 1943 being attributed to the war. Increases in salaries commensurate with increases in the business were approved by Judge Learned Hand in Page Machine Co. v. Dow, Jones & Co., D. C., S. D. N. Y., 238 F. 369, 375.

"The Master's conclusion is approved and this exception will be overruled." (Emphasis added.)

The foregoing decisions seem to us eminently correct. Profit is an ordinary economic fact to be determined in accordance with sound principles of accounting. Profits which are computed without a deduction for management salaries which are reasonable and commensurate with the services rendered are artificial and fictitious and the use of such fictitious profits, either as a measure of recovery or as an evidentiary fact, is wrong. It gives to the plaintiff an unwarranted windfall and imposes upon the defendant a gross injustice.

It is important both to these litigants and to the law of damages in patent infringement cases that this question be settled and we respectfully submit that the rule applied by the Fifth Circuit is wrong.

POINT THREE

In reforming the judgment to increase the award from $35,000.00 to $64,407.59 the Court of Appeals erroneously assumed that the trial court's finding of damages was measured by infringement profits; it erroneously assumed that the trial court would have altered the finding of damages in accordance with any change in infringement profits; it made basic accounting errors in recomputing

infringement profits, and in all of this it usurped the function of the trial court to find the facts and so completely departed from the accepted and usual course of judicial proceedings as to call for an exercise of this Court's power of supervision.

In *Seymour v. McCormick, 16 How. 480, 490, 14 L. Ed. 1024, 1028 (1853)*, the Supreme Court said:

> "* * * actual damages must be actually proved, and cannot be assumed as a legal inference from any facts which amount not to actual proof of the facts. What a patentee 'would have made, if the infringer had not interfered with his right,' is a question of fact and not a judgment of law. The question is not what speculatively he may have lost but what actually he did lose."

From that day to this the question of infringement damages has been one of fact and the Court of Appeals so concedes. Thus *Fed. Rules Civ. Proc., Rule 52(a), 28 U. S. C. A.*, controls the scope of review.

The established and usual bounds of appellate review of findings of fact under Rule 52(a) are amply set out in *United States v. United States Gypsum Co., 33 U. S. 364, 92 L. Ed. 746, 68 S. Ct. 525 (1948); United States v. Yellow Cab, 338 U. S. 338, 94 L. Ed. 150, 70 S. Ct. 177 (1949); United States v. Oregon State Medical Society, 343 U. S. 326, 96 L. Ed. 978, 72 S. Ct. 690 (1952); Cleo Syrup Corp. v. Coca-Cola Co., 139 F. 2d 416 (C. A. 8, 1943); Sanders v. Leech, 158 F. 2d 486 (C. A. 5, 1946); Widney v. United States, 178 F. 2d 880 (C. A. 10, 1949)*, and we respectfully submit that the Court of Appeals has violated those bounds.

It concluded that the trial court's finding of damages was based almost entirely upon his computation of infringement profits—that the measuring rod used by the trial court was infringement profits. It then further concluded that once the asserted errors in computing infringement profits were corrected, it could properly enter a new judgment based thereon without doing violence to the "clearly erroneous" rule.

We first submit that the basic premise that the trial court used infringement profits as the measuring rod is clearly wrong.

While the trial court unquestionably devoted considerable time and attention to a proper determination of infringement profits as shown by his two letters (R. 14 and 25), we respectfully submit that the record shows conclusively that he considered profits as of evidential value only —not as the measure of damages, and that other factors of importance entered into his decision. In his first letter at R. 16 he said:

> "The *infringement profits*, once recoverable as such in the exercise of the equity powers of the Court * * * now, instead of fixing an outright liability, *only make a subject of proof which may be a relevant factor in determining the plaintiff's compensatory damages.*" (Emphasis added.)

Then after sifting the various contentions of the parties with respect to profits and making some rough computations he said at R. 21:

> "The computations necessary to reflect the effect of the figures and data herein stated has not been made except only very imperfectly, and *such determination*

of course, will not constitute any readymade measure of compensatory damages due the plaintiff, but I wish respective counsel would carry out such computation as *same will be of evidential* value in deciding what should be fixed as compensatory damages." (Emphasis added.)

And finally in that first letter at R. 23-24 he said:

"The judgment to be rendered herein will be for compensatory damages, but since a *reasonable royalty marks the minimum limit of such damages*, it is proper to make a determination thereof, and I will advise that in my judgment 5% of the net sales of spring clamp plows and net sales of parts, is a fair and reasonable royalty. * * *.

"A definite assessment of compensatory damages will be deferred until counsel have submitted computations of *infringement profits* and *reasonable royalty* pursuant to the preceding parts of this letter. *In my judgment, there are several other elements which might properly be taken into consideration.* This has been a long and expensive litigation. Costly to both litigants, in time as well as in money. It probably has, to some extent, hampered the ordinary conduct of business by both litigants. The strict money cost has not been limited to attorneys' fees, but there have also been fees of expert witnesses, as well as travel expense in contacting and taking the numerous depositions of witnesses at distant places and there has been substantial draftmanship expense. The plaintiff's patent has been adjudged meritorious and has undisputed utility and advantage in the agricultural economy in certain parts of the country." (Emphasis added.)

In the second letter he said:

"* * * The accounting *is only evidential and not definitive of damages*, and it should stay within the normal accounting framework. * * *." (R. 26.) (Emphasis added.)

"Taking into consideration *not only the matters mentioned* above and in the letter of September twenty-ninth, *but all the record in this case*, the plaintiff's damages are assessed at the sum of $35,000.00, * * *." (R. 28.) (Emphasis added.)

Some of the same language found in the letters was carried into the formal Findings of Fact and we invite the Court's attention particularly to Findings X and XI (R. 48).

"X. The judgment to be rendered herein will be for compensatory damages. Since a reasonable royalty marks the minimum limit of such damages it is proper to make a determination thereof and I find that in my judgment 5% of the net sales of spring clamp plows and net sales of spring clamp parts is a fair and reasonable royalty.

"XI. There are several other elements which might properly be taken into consideration in figuring compensatory damages. This has been long and expensive litigation, costly to both litigants in time as well as in money. It probably has to some extent hampered the ordinary conduct of business by both litigants. Fees of expert witnesses, travel expense, depositions, etc. The Graham patent has been judged meritorious and has undisputed utility and advantage in the agricultural economy in certain parts of the country."

The literal record shows beyond any doubt that infringement profit was only one of the factors considered by the trial court.

At no place in the record did the trial court translate Jeoffroy's profits into Graham's damages. He worked at length with the various conflicting contentions in an effort to determine the true Jeoffroy profits derived from the infringement and his calculations would produce a figure

of $33,595.22, yet he did not fix that as the amount of Graham's damages.

It was his duty to determine damages upon the basis of evidence which had a real relation to Graham's loss, not by the use of an artificial measuring rod, and we believe he made an earnest effort to do just that. He rejected (R. 15-16) as untenable the effort to translate Jeoffroy's profits into Graham's lost profits; he expressly stated that Jeoffroy's profits were not definitive of damages but were only a factor to be considered; he determined a reasonable royalty and unquestionably viewed it as a major and limiting factor, and he specifically noted other factors which should enter into the determination. Could he have said any plainer that "this decision is based on the *whole record* and *not* on any *one factor?*"

If infringement profits were not the measuring rod used by the trial court, then, even if there were errors in the computation of those profits and if the Court of Appeals was correct in its recomputation, there would still be no basis for the entry of a judgment based thereon and such action of the Court of Appeals was a clear invasion of the province of the trial court and a clear substitution of its finding for his.

Second, we submit that in recomputing infringement profits the Court of Appeals made a basic accounting error in that it added back disallowed expenses 100% to infringement profits when those expenses were charged to infringement business in Jeoffroy's accounting only upon a pro-rata basis.

Jeoffroy's accounting started with sales of $1,189,796.16, deducted therefrom total expenses of $1,121,508.81, and reflected a total net profit before taxes of $68,287.35, of which profit 45.6048% or $31,142.26 was attributed to sales of spring clamp plows and parts. Obviously, therefore, all expenses whether properly deductible or not, were charged to infringing and non-infringing business on a direct percentage basis. It necessarily follows that disallowed expenses are to be added back only in the percentage in which they were charged out in the first instance. This may be done by adding the *total* disallowed expenses back to the *total* profits before applying the percentage factor or by first applying the percentage factor to the disallowed expenses and adding back the *appropriate percentage or amount* to the *profits attributed to the spring clamp plow and parts business.* This was the procedure followed by the trial court as shown by his letters (R. 17 and 26-27) and Finding IV (R. 44).

The Court of Appeals in recomputing profits, however, started with the infringement profits per books of $31,-142.26 and added back thereto 100% of the disallowed expenses to reach an adjusted infringement profit of $107,-345.98. This is obviously wrong. Such a profit would be about 20% on gross sales of $542,604.31 and is wholly unrealistic. The unreality thereof further demonstrates the Court's error.

We submit the record clearly shows that the Court of Appeals erroneously substituted its findings of fact for

those of the trial court and in doing so it made clearly wrong findings.

G. CONCLUSION AND PRAYER

In conclusion we respectfully urge that the Court of Appeals erred in that:

1. It made an award based solely upon infringement profits, which profits have no relation in fact to Graham's damages and are not a proper measure of recovery under the statute;

2. In computing infringement profits it erroneously excluded as expenses the reasonable salaries of Roy and Ray L. Jeoffroy;

3. It made incorrect assumptions and calculations and substituted its findings for those of the trial court, thereby usurping the function of the trial court;

all of which errors have not only resulted in a wrong result in this case but also are of major importance to all litigants in the patent field.

WHEREFORE, Petitioners pray that writ of certiorari be granted and that upon final hearing the judgment of the Court of Appeals be reversed and that of the trial court affirmed.

Respectfully submitted,

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and
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Attorneys for Petitioners.

APPENDIX A

In the

United States Court of Appeals

FOR THE FIFTH CIRCUIT

No. 16392

WILLIAM T. GRAHAM and GRAHAM-HOEME PLOW CO., INC.,

Appellants,

versus

JEOFFROY MFG., INC., ROY JEOFFROY and RAY L. JEOFFROY,

Appellees.

Appeal from the United States District Court for the Northern District of Texas.

(March 12, 1958.)

Before HUTCHESON, Chief Judge, TUTTLE, Circuit Judge, and HANNAY, District Judge.

TUTTLE, Circuit Judge: This is an appeal from findings and a judgment of the trial court entered August 3, 1956, assessing damages against the defendants below, the appellees here, for the infringement of appellants' patent. The validity of the patent and the fact of infringement

have already been determined by the trial court and affirmed by us in *Jeoffroy Mfg. Co. v. Graham*, 5 Cir., 206 F. 2d 772. In brief, appellants say that on the unchallenged findings of fact the trial court erred in not making its award for damages substantially higher than the $35,000 judgment. The figure was stated by the court to be compensatory damages without any increase under the power to assess treble damages or to award attorneys' fees.

The controlling statutory provisions in effect during the accounting period of infringement are:

> "Section 67. Damages for the infringement of any patent may be recovered by action on the case, in the name of the party interested, either as patentee, assignee, or grantee. And whenever in any such action a verdict is rendered for the plaintiff, the court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict, together with the costs."

35 U. S. C. A. §67, Appendix II.

> "Section 70 * * * upon a judgment being rendered in any case for an infringement the complainant shall be entitled to recover general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor, together with such costs, and interest, as may be fixed by the court. The court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry of judgment on any patent case. * * *
>
> "The court shall assess said damages, or cause the same to be assessed, under its direction and shall have the same power to increase the assessed damages, in its discretion, as is given to increase the damages

found by verdicts in actions in the nature of actions of trespass upon the case: * * *."

35 U. S. C. A. §70, Appendix II.

On July 19, 1952, the statute (Title 35, U. S. C. A. Section 284) was changed to read that upon finding for the claimant, the Court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer. It further provided that the court may increase the damages up to three times the amount found or assessed.

Title 35, U. S. C. A. Section 285, provides that the Court in exceptional cases may award a reasonable attorneys' fee to the prevailing party.

The parties agree that compensatory damages, as provided for in the statute, may comprehend the profits of the infringer and lost sales and expenses of the patentee if proved, but that neither element of damage must in all events be found by the court. Evidence of each of these may be considered by the court in fixing its award. In other words, the profits made by the infringer from his improper use of the infringing device may be the measure of the damages suffered, even though the statute does not prescribe that profits are to be recovered as such.

Also, it must be conceded that the finding of damages is a finding of fact and "* * * findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge the credibility of the witnesses * * *." F. R. C. P. Rule 52(a).

As to the refusal to grant an increase under the power of the court to treble the damages and to award attorneys' fees, appellant is also met with the very formidable, indeed almost insuperable, burden of showing an abuse of discretion by the trial court imposed by the statute which provides not that the court *must* but that it "*may*" make such awards.

Substantially the whole of the trial court's findings as to damages related to an ascertainment of the true amount of profits earned by the defendants from the sale of the infringing article. It is quite apparent from the computations made by the trial judge, who did not refer the matter of damages to a master, that the final judgment entered by him was based almost entirely on the figure which he considered to represent the profits made by defendants from the sale of the infringing article. Our review of his conclusion, therefore, should include a review of his calculations which are based on figures supplied by the defendants about which there is no genuine dispute. If we find, as we do, that substantial errors entered into his calculations, then, without doing violence to the clearly erroneous doctrine, the final figure must be found to have been arrived at by legally incorrect methods and it must be set aside. This is so, not because the trial court is bound to find as damages the exact sum correctly determined to be the profits of the infringers, but to insure as near as may be that in using the profits as a measuring rod no mathematical or accounting mistakes have been made, no legally untenable positions taken.

Before reviewing the computations it is necessary to consider appellant's contention that, since the accounting practice of the appellees did not permit a completely accurate breakdown between the infringing and the non-infringing operations of appellees the court should consider the entire operating profits of the infringers as the measuring rod. Relying upon *Westinghouse Electric & Manufacturing Co. v. Wagner Electric Mfg. Co.*, 225 U. S. 604, *Van Kannel Revolving Door Co. v. Uhrich*, 8 Cir., 297 Fed. 363, and *W. H. Miner, Inc. v. Peerless Equipment Co.*, *7 Cir., 115 F. 2d 650*, appellant contends that the failure of appellees to maintain a cost accounting system or otherwise to separate the infringing operations from the non-infringing demands the inclusion of the appellees' entire profit as its profit from infringement. Appellees answer that this rule does not apply if the court can make a reasonable approximation of the separate categories. Here the finding of the trial court that the profits from the infringing activities can be reasonably measured from the records is not so clearly erroneous as to require an application of the more stringent rule. Indeed we do not think it is erroneous at all.

The total sales of appellees during the accounting period amounted to $1,189,796.16. Of this amount sales of 1,863 infringing plows[1] accounted for $542,604.31, or 46.6048%.

The total profits of the entire business were $68,287.25, as shown on the books of the defendant corporation. The

[1]The patent relates to a device attached to a multiple-bladed plow which causes the ground-working tool (the end of the plow) to give way and rise over obstructions such as rocks with which it makes contact while being drawn across the ground being plowed.

court found that $28,518.48 of the legal expense, $21,714.33 of Ray L. Jeoffroy's salary, and several small items, all totalling $54,489.39, should be specifically allocated to the cost of defending the infringing operation and should not be allowed as an operating expense in arriving at the corporation's net profits. This figure was then added to the $68,287.25 and a corrected net profit of $122,776.64 was arrived at. The court then applied the factor of 45.6048% to this and obtained a figure of $55,997.04, as defendants' net profits "on spring clamp plows and spring clamps and parts" during the accounting period. To this figure the court applied an additional percentage factor of 60%, being the part of the sales price of the whole plow which the court attributed to the infringing spring clamp itself.[2] Without making the mathematical calculation that would produce $33,595.22, the court fixed damages at $35,000.

We agree with appellants that there are two basic errors in the treatment given by the trial court to the items used to compute the company's net profit and that part of the profit attributable to the infringing sales. The first relates to the salaries of the two Jeoffroys, the father, Roy, and the son, Ray L. They were both found by the trial court to be guilty of infringement along with their corporation. This, of course, followed because it was, in this respect, their alter ego. Since what the court was here attempting to reconstruct was the profits from the infringement, and since the Jeoffroys, father and son, were found to have

[2] We shall discuss the propriety of this adjustment later, but we here discuss only the treatment of the items that constitute the company's entire net profit and the net profit from sale of the infringing plows.

earned salaries some 45% of which came to them as a result of the infringing activities, the amount of these "infringing" salaries must be added to the infringing profits of the company in order to make a complete picture of the profits resulting to the company from the infringing acts by the defendants as a group. We hold, therefore, that a correct picture of infringing profits must include the entire $21,714.33 salary of Ray L. Jeoffroy disallowed, not 45% of it, and must in the same way include $21,714.33 of Roy's, which the court did not include at all because, although the president of the company, he was the less active of the two. He nevertheless has been cast as an infringer and his profits from his activities as such must also be included.

The other error arises from the fact that the trial court after having allocated legal and other expenses specifically to the cost of defending the infringing effort, nevertheless allowed some 55% of them still to be deducted from the company's income to arrive at its true profits. This is the effect from adding the allocated unallowable expenditures to the company's total profit of $68,287.25, and then taking 45% of that figure to show the defendants' net profits on the infringing sales. The effect of this was to permit the company to retain as part of its profits, not accounted for to the patentee, 55% of the amount which the court had found was entirely spent in defending it in the infringement suit. This is not permissible in the computation of profits.

The true picture of the infringement profits computed in light of the above principles, would produce the following:

Total corporation net profit per books,	$ 68,287.35
Percentage of sales representing infringing articles,	45.6048%
Infringing profits per books,	$ 31,142.26
Legal expenses specifically allocated to infringement litigation,	32,775.06
Salaries (45.6048% of total)	
Ray L. Jeoffroy,	21,714.33
Roy Jeoffroy,	21,714.33
	$107,345.98

This figure contrasts with $55,992.04 resulting from the court's computations and treatment of Roy Jeoffroy's salary.

Appellant next challenges the trial court's reduction of the profit figure by applying a 60% factor to it. It is not disputed that the defendants sold 1,863 plows equipped with the infringing device. Nor is there any real dispute that appellants would have sold substantially all of these plows but for the actions of the appellees. The court found:

> "The plaintiff was equipped and had the material capable of manufacturing the 1,863 plows manufactured and sold by defendants. There is some evidence that there was a Glencoe deep cultivator on the market but the proof does not show definitely whether or how many of said Glencoe cultivators were marketed in the rocky areas during the accounting period. I, therefore, find but for the intervention of defendants the plaintiffs would have supplied the market for about all of the 1,863 spring clamp plows * * *."

These plows were particularly valuable in certain rocky areas of the northern middle west. As to this the court found:

"* * * evidently the infringing spring clamp used by the defendants as elements on the 1,863 plows were the dominant motivation of the buyers in the sale of such plows.

"The testimony is plain that the chisel plow such as manufactured and marketed by both the plaintiffs and defendants [without the patented spring clamp] are practically unsaleable in rocky territory without the spring clamp element. Defendants at best would have been able to sell *no more than a negligible number of the 1,863 plows in question without a spring clamp device attached.* In other words some such device was virtually indispensable as a prerequisite for the sale of said plows in the localities where same were marketed. There is some evidence that the plows increased the yield of crops to a large percentage and even made some of the farm land tillable whereas it had not been tillable with the old type one way or mold board type plows. However, the plows are just about as serviceable without the spring clamp in most places in the mid-continent part of the country and the spring clamps primarily meet a particularly acute need limited to rocky farm land. Any one of the purchasers buying these 1,863 spring clamp plows by moving one hundred miles or even less might well locate on a farm where the plows would be just as good without the spring clamp attachment.

"It clearly seems too much to say that the spring clamps represented the whole sales appeal to the purchasers of the 1,863 plows in question but *doubtless very few such purchasers would have bought the other value of the whole plow if they could not have gotten the vital benefit of spring clamps or some equivalent device.* Attention is focused on the very narrow factor of a special market requirement, a real prerequisite.

> That imperative angle imparted magnified weight to the demand for spring clamps as a factor in the sale of these plows, but I still do not think that all of the attraction can be credited to that one feature. In balancing the competing considerations I have concluded that the net profits accruing from the sale of the 1,863 spring clamp plows should be attributed 60% to the infringing spring clamp and 40% to the plow otherwise." (Emphasis added.)

These findings as to the motivating cause of the purchase of these infringing plows cause the appellant to invoke the rule announced by the Supreme Court in *Westinghouse Co. v. Wagner Mfg. Co.*, 225 U. S. 604:

> "Where profits are made by the use of an article patented as an entirety, the infringer is liable for all the profits 'unless he can show—and the burden is on him to show—that a portion of them is the result of some other thing used by him'."

Appellees claim the facts here make the case more similar to the other landmark case of *Dowagiac Mfg. Co. v. Minnesota Machine Plow Co.*, 235 U. S. 642. We think the degree to which the sale of the infringing plows was attributable to appellants' patented device is, after all, a question of fact and, although some of the trial court's findings of fact come close to negativing its ultimate finding, we cannot say the finding that only 60% of the profit is attributable to the infringement is clearly erroneous.

Applying this 60% factor to the segregated profits produces a result of $64,407.59, which, we find, is the true profit derived by the three defendants from the manufacture and sale of the infringing device.

Appellants strongly urge that this Court should reverse the judgment of the trial court for not increasing the compensatory damages and refusing to allow attorneys' fees under the discretion given in the statute, *supra*. The contention is made that appellees knowingly copied plaintiffs' device and that they wilfully entered into the manufacture and sale of the infringing articles, knowing that the patents were valid and were being infringed.

The law placing, as it does, the discretion in the trial court to determine whether the compensatory damages shall be increased in the nature of a penalty and whether the case is an exceptional one so that attorneys' fees should be allowed, appellate courts ought not to and will not interfere with the exercise of such discretion. Indeed, they may not do so unless there is such a clear abuse as to show that discretion was not exercised, or unless it is plain that the trial court's decision is based on an erroneous concept of law. This is not such a case.

We find no error in the treatment by the trial court of the reasonable royalty question, such royalty being under the statute only the measure of the minimum amount the court is permitted to find in such a case. Nor do we find error in the court's treatment of the item of interest and costs or in dealing with appellants' contention as to the item of lost sales.

The judgment is REFORMED to award a recovery of $64,407.59, and, as reformed, it is AFFIRMED with costs to appellants.

APPENDIX B

JUDGMENT

Extract from the Minutes of March 12, 1958.

No. 16392

WILLIAM T. GRAHAM and GRAHAM-HOEME PLOW CO., INC.,

versus

JEOFFROY MFG., INC., ROY JEOFFROY and RAY L. JEOFFROY.

This cause came on to be heard on the transcript of the record from the United States District Court for the Northern District of Texas, and was argued by counsel;

On consideration whereof, it is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, reformed to award a recovery of $64,407.59, and, as reformed, that said judgment be, and it is hereby, affirmed;

It is further ordered and adjudged that the appellees, Jeoffroy Mfg., Inc., Roy Jeoffroy and Ray L. Jeoffroy, be condemned, in solido, to pay the costs of this cause in this Court for which execution may be issued out of the said District Court.

APPENDIX C

ORDER DENYING REHEARING

Extract from the Minutes of May 3, 1958

No. 16392

WILLIAM T. GRAHAM and GRAHAM-HOEME PLOW CO., INC.,

versus

JEOFFROY MFG., INC., ROY JEOFFROY and RAY L. JEOFFROY.

It is ordered by the Court that the petition for rehearing filed in this cause be, and the same is hereby, denied.